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The Internationalization of Newhotel Software to Mexico

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Executive Summary

The purpose of this work project is to provide an internationalization plan for *Newhotel Software*. This report intends to analyze the attractiveness of Mexico, one of the company's geographic targets, and its respective implementation.

Newhotel Software is a Portuguese enterprise that develops software for the hospitality industry, namely property management systems, points-of-sale, among others, targeting hotels with more than three stars and more than 100 rooms. It is the market leader in Portugal, currently growing at an 8.5% rate in terms of total revenues fuelled by its internationalization processes.

The Mexican market presents very favorable macroeconomic situation (almost without disadvantages), qualifying Mexico as a good potential country of destiny. Moreover, it also presents a very good business opportunity in terms of market size (number of hotels) and structure (mainly constituted by independent hotels and small regional and national chains). Additionally, it has a large potential for the company to launch products for a lower segment in Mexico due to the huge market size of this segment.

The mode of entry in Mexico consists on addressing the market through a network of local distributors that will be responsible to contact hotels and sell the products, exploiting mainly their knowledge of the market and their networking with hotels being exposed at a very low degree of risk. The main challenge of the company will be regarding competition, as some of the characteristics that differentiate *Newhotel Software* in the national market are common abroad, although its competitive advantages associated with its broad offer of products and services will be determinant to distinguish the company from the competition and succeed in the Mexican market.

Keywords: *Internationalization; Mexico; Software; Hospitality Sector*

Methodology

The elaboration of this internationalization plan required several meetings with *Newhotel Software's* (NHS) managers in order to collect as much information as possible about the company; all the members doing the work project for NHS to discuss aspects related to the company; and the supervisors of the work project; as well as the attendance of the field lab's workshops about internationalization.

The data used in this report was provided by NHS for the analysis of the enterprise and for the market analysis data provided by certified institutes in Portugal and in Mexico. This information was complemented with other information available online.

There were some limitations in the access to data, namely regarding costs of the company in order to perform a proper value chain analysis and cost structure; and access to market information to relate independent hotels with their number of stars.

In addition, recommend books and articles on the field lab's bibliography were also used along with others and with an extensive online research.

Finally, contacts with *AICEP Portugal Global* and the Chamber of Commerce between Portugal Mexico were made in order to identify potential obstacles to the implementation process.

Description of the firm

Company overview

Newhotel Software is a family owned information technology (IT) company, founded in 1984, that provides software almost exclusively dedicated to hotels and their related activities (spas, convention centers, restaurants, etc.), i.e. property management systems (PMS) with front-office, back-office, management and marketing tools, among others.

With an historical growth rate of 6% annually (8.5% if one only accounts for the last three years) in terms of total revenues due to its internationalization processes, the company is currently making around 3.9 million euros in revenues. It is at the moment present in 182.000 rooms of 1.800 hotels spread across 26 countries (see Appendix I). It has also a very small presence in Mexico, mainly due to the few hotel chains that it was able to enter (Iberostar and Bahia Príncipe) and that brought NHS' products to their hotels in Mexico (see Appendix II for the detailed list of clients in Mexico).

NHS is the market leader in Portugal. If one considers the total market (since in Portugal it has all type of hotels as clients for historical reasons) the market share is 34% in terms of number of hotels and 48% in terms of total rooms (see Appendix III).

Moreover, 58% of NHS's clients are from Europe (representing 40% of its revenue), 32% from America (Caribbean Islands) and the last 10% from Africa.

The **mission** of NHS is “to provide a global and fully integrated software solution to hospitality industry with the most up-to-date and easy to handle applications, focusing on hotels' most demanding needs”.

The company's core **values** are experience, innovation, dedication and reliability.

The proposed **vision** by the group to the company is “to become a worldwide player in the information technology industry for the hospitality segment with the visionary goal of being present in the five continents of the world by 2020”.

Although NHS lacks in clearly defined **objectives** with quantitative goals and timelines established, the group believes that the following should be pursued. The company should: continue growing revenues at least 8.5% per year; enter one new geographical market per year; and establish commercial activities with two big hotel chains, everything until 2020.

Products and Services

NHS has three main types of products and services: software, maintenance and other services. It distinguishes from the competition by offering a vast portfolio of products (more than sixty) developed through a *modular conception*, i.e. its software is composed by several modules correspondent to different functions, allowing all the applications to run as standalone applications or to be integrated with each other, providing the final customer a very high customized product.

Regarding software, one can distinguish three categories: programs, modules and interfaces. Programs correspond to the main applications or procedures that perform tasks; each module corresponds to a different part of an application; and an interface corresponds to a code language used to connect applications.

NHS' applications are also categorized into the following types: Hotel Management Solutions; MultiHotel and Group Solutions; Point-of-Sale (POS), Food and Beverage (F&B); Business & Leisure Solutions; Interfaces; Manager Tools; and Workstation Calls. Moreover, they can also be adapted to meet the customers' specific needs.

In the first categories, Hotel, Multi-hotel and group solutions, the main product is the *PMS Front-Office*, which is also the most sold product, (that represents 31.26% of total sales). This software system is capable of performing all types of front-office operations, such as reservations, check-in, check-outs, payment processing, among others. Furthermore, this application can also be connected to other applications, namely Central Reservation Systems, travel services and Global Distribution Systems (systems containing all types of information about reservations and where it is possible to make them). The other categories of products are usually sold in addition to *PMS Front-Office*, such the *Point-of-Sales* – a system mainly used in F&B services (usually, restaurants and bars) that allows payments, process credit cards, connect accounts

payable in restaurant or bar with the room account payable, print orders to the kitchens, control stocks and logistics, create databases, reporting among other; and *NewStock*, a system dedicated to optimize logistics and the management of stocks (see Appendix IV). It is also important to highlight that NHS also has a product for a lower segment, the *PMS Express* (a downgraded version of the *PMS Front-Office*) and a recently developed *Cloud PMS* - a PMS version that works through cloud computing that is simpler than the regular version and only requires an internet browser to function.

Moreover, NHS provides an augmented product by also providing services in addition to the product. These services include the installation of the software; the provision of the hardware (only in Portugal) if a client wants a *turnkey solution*; professional consultancy services (where the company provides the company an assessment of their software needs, necessary product adaption and customization required in order to make the customer take the most advantage out of the software); maintenance including mainly helpdesk (with a 24h assistance service) and onsite support, upgrades, updates and systems configurations (see annex V for maintenance packages) and training.

Target Market

With the products described above, NHS intends to target mainly hotels with four or five stars and more than 100 rooms and with complex activities (e.g. spas, golf courses, conference centers, among others). However, NHS has to restring itself to independent hotels as it is currently unable to enter international hotel chains due to its centralized decision process - top management decides the software to be used by all the hotels belonging to the chain - and its high switching costs if they decide to change PMS.

Business Model and Revenue Process

NHS revenue process has three sources: one is intrinsically connected with its licensing model and it concerns its software products and the others are regarding the maintenance contracts and IT services.

It licenses its software either directly to hotels or through third parties – distributors. The technology and software are fully owned by NHS but the licensee acquires the right to use it for a limited period of time.

The selling process consists of three steps: approaching the hotels, making a demonstration of the software and closing the deal.

The licensing of the software is only the second most important source of revenue, where the price depends on the number of rooms but not on a proportional way, since NHS charges a low price per room for hotels with a high number of rooms, similarly to quantity discounts. (It differs from its main competitor as Micros charges a linear price: the price is directly proportional to the number of rooms available, meaning that NHS charges a higher price to smaller hotels and a lower price to the larger ones in comparison to Micros.) Another important aspect of the business is the *cross-selling* i.e., whenever NHS's customers start growing, their needs for management and other software increases and they acquire more of NHS's products.

Moreover, when the licensing is made through distributors, NHS shares the revenues with them, on a 50-50% basis.

However, the main source of NHS revenue comes from the maintenance contracts. It is also the most important since it is a long-term source of revenue. For those, it charges a price that is about 20 to 30% of the license price of the corresponding software – these revenues are also shared with the distributor in half.

Other sources of revenue are related to the IT consulting and other services, where there is a fixed price per hour.

Organizational Structure

NHS is a very labor-intensive company employing 74 people from different nationalities, with bachelor and masters' degrees, but with an academic background mainly related to the IT industry. It has four offices in Portugal, as well as in Spain, Colombia, USA, Lithuania, Cuba and Peru. These offices were the result of their previous internationalization processes since some of its clients would require NHS an office in their target market in order to use *Newhotel Software* in those markets whenever they expanded the business to a different country. NHS is also present in other countries across the world but through agreements with local distributors since the number of customers/business volume does not justify the opening of an office.

The company follows a very hierarchical organization, a mixture of functional with geographical approach, with the President and Chief Executive Officer (CEO), Mr. João Matoso on the top, followed by the Vice-President (VP), Mr. Hernani Freitas, and the board of Directors. In Portugal, the company is divided in four main functional areas: Software development, Technical Services, Administrative Services and International Operations that report to the CEO. In addition, there is also a fifth area, Portugal Operations that reports to the VP. In what concerns to the international offices, the company is divided by six geographic areas, as previously mentioned (more detail and subsections of each main areas in Appendix VI).

Research and Development (R&D) is centralized in the headquarters of the company in Portugal (inside the *Software Development* area) with eleven fully dedicated employees

plus another five dedicated to new software generation, along with some activities being conducted in the office in Bogotá (mainly customization).

Key Resources, Core Processes and Competitive Advantage

The company's key resources are its human resources, namely, its IT engineers who detain the knowledge and know-how in the company. They are what enable NHS to be so good in what concerns the software development department, by being specialized in Research and Development of technologies and software as well as in their software production. This consists in the design, development and testing of new software and upgrading of old software. NHS dedicates most of the resources to the innovation in terms of software by: developing new products; incorporating new technologies into old products; adding features and functionalities; or simply improving characteristics of existent software.

When analyzing the resources (see VRIO Framework in Appendix VII), it can be concluded that human resources linked to the R&D and software development provide a sustainable advantage while resources linked with (the quality of) the helpdesk activities provide an advantage that is temporary as it can be easy and inexpensive to imitate.

The fact that all the software is developed internally in the headquarters, from scratch and through a *modular conception* makes the company very efficient and flexible to adapt to new market trends, developing new complementary products, features and interfaces as well as to customize its products very easily – its competitive advantage.

This also translates into a very broad portfolio of products capable of being used as standalone applications or being integrated in a single platform and into the capability of integrating its software with the software provided from competitors – which is very uncommon in the market.

Moreover, it also provides a competitive advantage regarding the customization process as it is able to customize its products in a faster and less costly way than the competition, generating a higher value to its customers.

Value Chain & Cost Structure Overview

Given the lack of data regarding the company's costs, it is only possible to mention in the value chain that Operations and R&D are the processes with the higher weight - reflecting the investment in the company's core processes that lead to its competitive advantage. Services should have also, a high level of importance, as the company increases the value for its customers by providing consultancy, maintenance and others, as explained in previous sections of this report. Inbound and outbound logistics and Procurement are almost irrelevant since NHS is an IT company that develops software from scratch. Marketing has a very low weight on the value chain, according to NHS.

Regarding the cost structure, it is very important to highlight that the company faces high fixed and skunk costs due to the R&D and the creation and development of products, being the remaining mainly variable costs – operations, distribution and sales and services are highly correlated with the volume of business.

Consequently, the profit margin is expected to be significant as well (probably more than 20% of total revenues).

Industry Mapping

The main players composing the industry map (see Appendix VIII) are:

Suppliers – they provide the tools to create software i.e. the applications to design it. A change in their tools will have an impact Newhotel Software. E.g. Oracle (database provider); IBM (provides accounting and reporting tools with its Crystal Reports)

IT Companies – they affect the market since any innovation in IT even if not directly related with the hospitality sector can affect it. As an example there is the cloud computing trend – something that is now being adopted by the hospitality sector.

Governments and Regulators – differences in standards and legislation will influence software characteristics and functions and will increase or decrease the need for NHS's products. Ex: Mexican government, Ministry of Tourism

Distributors – they are the ones responsible to increase NHS business volume where NHS has no office - corresponding to a sales force that represents NHS abroad.

Competitors – they affect *Newhotel Software* since clients have high switching costs, so whenever a competitors develop a new feature or a new software that can improve hotel's managerial functions, it is very likely that NHS customers will demand it. Moreover, even if they don't, NHS does benchmarking, therefore, if a company appears with a novelty, NHS will be influenced by it. E.g. Micros

Tourism operators – as they have a very strong connection with the hotel industry by being frequently an intermediary between hotels and customers will influence the NHS products and services, in what concerns for instance to GDSs and interfaces' compatibility E.g. E-Booking.com

Hotel Networks – groups of independent hotels, where they pay an annual fee to an entity running the group and in exchange, this entity supports the hotels members in several areas (sales, marketing, public relations, financial services, and quality management, among others). They influence the industry in the sense they have recommend software providers. NHS does not have any partnership with any of these networks. Ex: Leading Hotels of the World

Partners – They correspond to other relationships created with entities in order to generate mutual benefits. It includes several of the previous industry players.

Key Drivers, Market Trends and KSF of the Industry

The drivers of NHS's industry are connected with technological innovation on processes and ways of creating and presenting software, leading to new market trends, namely the current trend of cloud computing systems and to sell *software as service* (SaaS). There is also the evolution of the economic activity and tourism sector leading to an increasing need for cost efficiency in the management of hotels. Moreover, currently, according to the VP, there is also a trend in the hospitality for a faster and easier process of information without disregarding its quality.

Moreover, in order to succeed it is also important to stimulate customer loyalty and increase barriers to the switching of software as well as to have access to efficient distribution channels and have a high degree of brand awareness.

NHS is in a good position in what concerns the drivers and some of the key success factors in the market but there is some room for improvement regarding the increase of switching costs, the efficient distribution channels and the brand awareness.

Competitive Assessment

There is no company that covers all the range of products and services offered by NHS but there is a vast number of companies competing with each or some of the products of the range offered by NHS. Therefore, the analysis will be focused on the product that satisfies the more important need of the hospitality industry, the *PMS Front-Office* which is, simultaneously, NHS's most sold product.

In what concerns to those solutions, NHS faces one main competitor in Portugal and world-wide: Micros. Most of the other players are either local or internationalized but not in a global scale and even less with the dimension of Micros (900 million euros in total revenues). So, the main differences rely on its easiness to use, design, integration

of products, possibility and time of customization, complementary products and maintenance services (helpdesk activities). Thus, according to an independent technical evaluation of programs taken care for one of NHS's client in Spain, (that took in consideration the quantity/absence of features of the products, quality of their performance, and their relative importance to the hotels' management), when comparing *Newhotel Software* with Micros' PMS (*Fidelio*), the result was that, NHS provides a superior product in the majority of the dimensions analyzed, as well as on a global level, being attributed 74 points out of 100 while Micros was classified with 70 points (see Appendix IX for detailed comparison). This source of information was corroborated with the opinion of a former employee of Micros that is currently working for NHS and has deep knowledge of both PMS, as well as, by some NHS's clients interviewed for the purpose of this analysis.

External Context

Mexican Background and PESTEL Analysis

Mexico is the fifth largest American country with a population of more than 112 million people, mainly Spanish-speaking. Moreover, it is a federation constituted by thirty-one states and a Federal District (Mexico City) - the capital city.

Regarding **political** aspects, it is important to highlight that Mexican government is providing incentives to the tourism industry, namely with the *Pueblos Mágicos* Program that aims to foster tourism in certain "pueblos" (villages)ⁱ which will very likely foster an increase of number of rooms available for tourists in those areas as well as an improve in the management of the existent ones.

In addition, the **economy** is recovering world-wide and in Mexico, in particular, with the GDP growing 5.4% in 2010 and predicted to grow 5% in 2011 and 3.1% in 2012

which favors the tourism industry and creates a stimulus to the hospitality industryⁱⁱ. Additionally, the number of tourists, decreasing from 2008 to 2009, has recovered and is growing at a 4.4%ⁱⁱⁱ - and it is expected to have increased in 2011^{iv}.

There is also an increasing awareness of the impact of IT in the tourism sector in Mexico. The *SECTUR – Secretaria de Turismo*, a Mexican institute, made a study^v about the relationship of IT with the management process of the hospitality facilities which reveals a concern for efficiency which creates an opportunity for NHS.

Concerning **technological** aspects, the levels of broadband^{vi} and internet usage are with the normal ranges for developed countries which will not constitute any barrier to the implementation of NHS products, namely the *Cloud PMS*.

Regarding **legal** aspects, there are several bilateral agreements to favor investment and avoid double taxation in exports. Plus, when considering exporting the software, there is only the need to pay the customs tariffs and the value added tax^{vii}. In what concerns to the possibility of creating a subsidiary in Mexico, there is no major barrier to constitute a company, it is only subject to the law of the foreign investment, and the process is very fast (taking less than half the world average, 34 days). Nevertheless, labor regulations are rigid and dismiss employees is a very difficult process.^{viii}

Furthermore, there are no limits on the repatriation of capital as long as all the fiscal obligations are done.^{ix}

The only concern is regarding the copy rights protection, since although Mexico ranks number 48 in the world in what concerns economic freedom^x, with a score of 67.8 (ahead of Portugal ranking number 69 with a score of 64.0) – the property rights are evaluated on 50 out 100 points, justified by the inefficiency of courts in what concerns solving disputes. In addition, the level of corruption in business is perceived as high.

(See appendix X for more macroeconomic information.)

Mexican Tourism Industry Analysis

Mexico has a broad portfolio of attractions for tourism due to its historical heritage - elements of pre-Colombian civilizations, the archaeological places and the vestiges of predecessor cultures; its coasts and respective beaches; among others, combined with a good infrastructures make Mexico a very attractive country for tourism^{xi}.

Mexico ranks number 43 worldwide in the *Travel & Tourism Competitiveness Report 2011*^{xii}, which represents an improvement of 8 places in relation to the year of 2009. Plus, it is ranked number 4 in what concerns to the Americas. In same report, tourism infrastructures had improved from a 3.91 score in 2009 to 4.62 in 2011.

In terms of visitors, about 22 million tourists were in Mexico in 2008, which generated around \$13 billion of American dollars - 8% of Mexico's GDP, being 17% of the latest revenue from hotels. In addition, with the financial crisis and the impact of the swine flu, tourism in Mexico was affected, being reduced to 11,275 million dollars in 2009, but growing 5.3% in 2010 to a level of more than 11,870 million dollars.

Mexican Hospitality Sector Analysis

According to data from the *Compendio Estadístico del turismo en México 2011* provided by CESTUR^{xiii} (Centro de Estudios Superiores en Turismo) the Mexican market is composed by a total of 16,794 hotels with 637,232 rooms available, an increase of 3.5% and 2.2% respectively, relatively to the previous year (see Appendix XI for market structure evolution). However, the Mexican market is very heterogeneous in terms of number of hotels per states, having some of them around 100 hotels while others have more than 1,000.

Moreover, there is a 2011 *HVS Global Hospitality Services Study*^{xiv}, that also supports that Mexico is not homogeneous in terms of hotel distribution across the country as well

as in terms of hotel type (international, regional or independent), being, on average, composed by 23% of international chains, 8% of regional and national chains and 69% of independent hotels (see full data in Appendix X). Moreover, these regional and national chains can be compared to the independent hotels, in terms of target, as their switching cost is smaller due to their dimension and usually do not have centralized decisions, allowing each of the hotels in the chain to choose its own PMS provider.

The improvements highlighted in the *Travel & Tourism Competitiveness Report*, the recovery and growth in terms of the number of visitors and of the tourism revenues analyzed in the previous section of this report, and the increase in the hospitality offer are evidence of an industry that is growing, and as there is a low percentage of hotels international chains, make Mexico a very attractive market for NHS to pursue.

Mexican Market Size

The Mexican market size for the current target is around 2,864 hotels^{xv}, being 1,073 hotels with five stars with a total of 169,308 rooms and 1,791 hotels with four stars with a total of 123,696 rooms available (see Appendix XII).

What is more, **Quintana Roo, Baja California Sur, Guerrero, Federal District, Nuevo León and Jalisco** are some of the states with the higher ratios of hotel rooms per hotel and number of hotels, constituting six possible states to explore in a first stage.

However, this segment corresponds only to 13% of the total number of hotels. If one takes into account that NHS can address a lower segment (hotels with three and two stars^{xvi} - more than 30% of the total market, - that have less demanding needs in terms of software, for instance) with either its *PMS Express* or its recently developed *Cloud PMS*, this market increases by 5.233 hotels and more than 168.000 rooms, to a total of 8.097 with more than 461.000 rooms available – it more than doubles. Besides, in this

lower segment is more likely to predominate independent hotels and can be more willing to change, as they have lower switching costs.

Analysis of Competitors in Mexico

For the Mexican market, main competitors besides Micros are *Skyware Systems*, *Infor Softbrands* (that currently owns *Amadeus Hospitality Solutions*), *Ezee Technosys Pvt. Ltd.*, *Novohit*, *Frontsuite* and *Maestro PMS*. They are all present in the market either through a local office or through a distributor and they are very similar in terms of features (see Appendix XIII for a detailed list of features of the PMS of each competitor) but differ in their products and services' offer as listed below:

Table 1 – Comparison among players in Mexico

Products Firm Competences		Micros Systems	INFOR Softbrands (Amadeus)	Skyware Systems	Northwind (Maestro)	Novohit	Frontsuite	Ezee	Newhotel Software
Products	PMS	X	X	X	X	X	X	X	X
	POS	X	X	-	X	X	-	-	X
	Resort	X	X	X	X	X		X	X
	Stock	X	X	-	-	X	X	X	X
	Conference	-	X	X	X	X	-	-	X
	Gaming	-	X	-	-	-	-	-	-
	Spa	X ^{xvii}	-	X	X	X	-	-	X
	Golf	-	-	-	X	-	-	-	X
Competences	Customization	-	X	-	-	-	-	-	X
	Modular Conception	X ^{xviii}	X	-	X	X	X	X	X
	Interface Compatibility	-	-	-	X	-	-	-	X
	Help Desk	X	X	X	X	X	X	X	X

Source: Capterra and websites of each company.

Therefore, what distinguish them, in fact, is the overall quality of the product, some characteristics relatively to the nature of the product (being modular or not; being able

to integrate with software from the same company or with other companies, for instance) the type and quality of services associated and the portfolio of products.

It is important to highlight that the *modular conception* is no longer unique in the Mexican market, but is still a competitive advantage in the sense that it allows the company to be more flexible to customize and adapt software to new market needs and trends. Moreover, none of NHS's competitor is as complete as NHS in terms of products and services offered as evidenced above (see Appendix XIV for more details about each competitor), in an industry where complements are important.

Porter's Five Forces Conclusions

From Porter's Five Forces analysis (see complete description in Appendix XV), the main conclusions are that it is easy for any company already in this business to enter the Mexican market as the products provided are global and need no adaptation; suppliers have no power over NHS as evidenced by their weight of suppliers in total costs of NHS (less than 1%); buyers, on the one hand, have very little power since there is a very large quantity of independent hotels in the market, but on the other hand, 83% of the market is constituted by small and midsize hotels which are more likely to be more price-sensitive; there is no close substitute for PMS used in hotels; and the most important of all, industry rivalry will tend to be high as companies do not change PMS often (as the bigger they are, the higher the switching costs associated with new contracts and employees' training).

Therefore, NHS has to be quick entering Mexico and other geographic markets in order to take advantage of the fact that its product needs no adaptation and ensuring that companies that are willing to change PMS at the moment will choose NHS as a provider. Moreover, Porter's extension of the five forces model, that includes a sixth force related with complements, can be very important in this market: the capacity to be able to cover

all the hotel's needs in terms of software can play a major role in this industry. Hotels value multi-solution providers as it simplifies all processes (same provider implies same way to handle all the products, less compatibility issues, same helpdesk, etc.).

This favors NHS as the company is able of not only provide a multi-solution as it can have its software functioning with other existent software in the hotels.

SWOT and TOWS Analysis

From the SWOT and TOWS analysis (see appendixes XVI and XVII for the detailed analysis), the main recommendations that come out are the fact that NHS has to persuade the independent segment by demonstrating that it has a superior product, by emphasizing its less expensive and faster customization of software as well as the fact that they have a vast portfolio of solutions that can cover all of the hotel's needs. What is more, this portfolio can also address other targets than the independent hotels' segment (e.g. F&B, Golf, etc.). NHS should also consider entering the market with the *PMS Express* or the *Cloud PMS* as the majority of the market (83% of hotels) will be more suited with a simpler product than with the complete version.

NHS should keep innovation as a way to sustain a competitive advantage, increasing the range of products, providing software to all the possible related areas of a hotel.

It should also improve its internationalization processes, extracting more profit from it and managing better its external distributors abroad.

Finally, it should find influent partners in order to cover the lack of market knowledge and enter those chains with centralized decisions that NHS is currently unable to enter.

Mode of Entry

Three feasible modes of entry were studied: exporting the software through third parties intermediaries - local distributors; entering the company with a joint venture with a Mexican company present in all states and with strong connections to the hospitality sector; and create a wholly-owned subsidiary in Mexico. Risk, return, market penetration (access to hotels) and level of investment required, among other criteria, were analysed in order to select the best mode of entrance that would fit the strategy of the company (see mode of entry selection process in appendix XVIII).

The mode of entry selected to enter the Mexican market will consist on the licensing of the software to a set of distributors, granting them the right of commercializing NHS intangible property for a specified period of time, in exchange for a fee.

This fee should be progressive and according to business volume generated by the distributor (the higher the number of hotels/rooms, the higher the percentage kept by the distributor) and ranging between 25 and 50%.

In addition, more than one distributor will be considered per state and there will be monetary incentives attributed to best performing distributors in order to stimulate some rivalry among them and therefore increase their efforts in order to get customers.

This licensing model will be appealing to the licensees, as NHS target distributors will be companies with hotels within their customers which will increase the offer in terms of products of those companies increasing their sales to old customers and allowing them to explore new ones with these new products.

It will also enable NHS, the licensor, to invest a smaller amount of money in comparison to the other feasible entry modes analysed, allowing the company to also have resources to pursue an internationalization to other countries and at the same time

having a higher market penetration in the several states of Mexico in a smaller amount of time than in the other possible modes of entry.

Additionally, this mode will allow NHS to exploit the existent customer base of its distributors as well as to capture knowledge of the market on a more local basis (state by state), being particularly important due to the huge diversity across states.

Moreover, HSH it will have lower operational costs and a higher volume of clients, maximizing total profit in comparison to what can be expected with the alternatives.

What is more, as the contracts with distributors expire after a period of time, NHS can open an office in the country in a later stage if/when the conditions justify that.

Implementation Plan

Internationalization Objectives

The internationalization objectives for Mexico, in particular, are: in terms of customers to get a contract with at least one hotel per state in the first year and two hotels per state in the second year (one for states of the second phase) totaling at least 30 hotels (with more than three stars and 100 rooms) by the end of the second year; to get at least two national or regional chains in the first two years; in terms of distribution channels: to have distributors in all states by the end of the third year, and in terms of customer satisfaction maintaining a high level (more than 90% of customers' satisfied – assessed through the helpdesk).

Marketing Plan

The marketing strategy used for this internationalization will consist on a *Product Extension-Communication Adaptation*, expanding the products with no change and adapting the communication to the country of destiny taking into account the profile of

the Mexican hospitality sector as well as exploring the differences from NHS's products from the competition described below.

Product

The product licensed to distributor companies will be the same as the one offered in the national market. Moreover, as the product is already in Spanish and has all the features to function in Mexico, the only thing that will be needed is some customization, if the client demands it. The *Cloud PMS* – with a *SaaS* sales strategy, as it is a product that can be sold through the internet and have its maintenance all performed at the headquarters - should be launched in the market, as a way to boost sales.

Price

As the company only sells global products, prices to the final consumer (hotels) will be in line with what is charged worldwide by Newhotel Software. For large sized hotels, the pricing list will just be updated taking into account currency and taxation. For medium sized hotels, the company should take in consideration that Micros offers a more competitive price, therefore, the price for the *Cloud PMS* has to be competitive.

Place

Demonstrations of NHS's products and the conclusion of the deals will be done at the distributors' offices or at the hotel, if the distributor has the resources for that. The *Cloud PMS* will be advertised by the distributor but commercialized online.

Promotion

First of all, it is recommended a standardization of all new hotel products under a *source brand strategy*, by having the name of all products beginning with "new" – as already happens in most cases, that will make people associate each product with the name of the company, its values and points of difference.

Secondly, regarding online promotion, the website should be updated with the information regarding the Mexican market, namely contacts and location of distributors.

The acquisition of the domain *newhotel.mx* is advised. The insertion of NHS data in websites that compare hospitality software is also advised, as well as the use of Google's *adwords* that represent a low variable marketing cost (it is a cost per click).

Thirdly, new brochures have to be done and sent to distributors and hotels, taking into account the profile of the hospitality market of each Mexican state and the network of the local distributors (using a “glocal” approach – the company will continue to sell its products globally but taking in consideration the local characteristics).

The focus of the promotion should rely on the experience of the company that is present worldwide and on the technical support and on particular aspects of NHS's products: the modular conception and integration of a vast variety of software able to cover all the hotel's needs, the option of customization and the compatibility with other interfaces that are not provided by NHS, so that it can attract clients that are only interested in acquiring complementary products such as the modules for spas, golf courses, etc.. Nevertheless, aspects such as the helpdesk working 24/7 should not be disregarded.

The portfolio of clients, namely Iberostar's hotels, should be used as a reference during sales to signal credibility and quality of NHS's products.

Finally, it recommended the involvement in fairs related to the hospitality industry with the intent to demonstrate the product, persuade potential buyers and increase the network of contacts related with the industry. These should include the *Exphotel 2012*^{xix} in Cancun in June and the same trade show in 2013.

Operational Plan

The implementation plan will consist on three phases: a pre-implementation phase, an initial phase and a second phase.

The pre-implementation will consist on contacting potential distributors (see Appendix XIX for potential distributors) operating in the six more relevant states in Mexico (Baja

California Sur, Federal District, Guerrero, Jalisco, Nuevo León and Quintana Roo) that represent about 36% of the total number of hotels and 55% of the total rooms of the hotels of four and five stars in Mexico (these percentages decrease slightly if one adds the lower segment addressed with the cloud PMS, but in absolute terms, one changes from 1,019 to 2,334 hotels – more than twice).

In an initial phase, a representative of NHS should travel to Mexico to get in touch with the organizations related with tourism and the hotel industry (see list in Appendix XX) and to negotiate contracts and close the deals with the potential distributors. When that process is completed, it is necessary to train the new distributors (learn all the relevant aspects about NHS and its products and services, discuss reporting practices and improve sales techniques): online/via conference call and onsite. Online training is a cost efficient way to provide the initial basic information while the onsite training to be made in Bogotá (shorter distance than to the headquarters will translate into less costs) will provide more specific knowledge and demonstrations of the software. Training costs (mainly, expenses with flights) should be either supported by the distributor or shared with NHS (up to a 50% of the costs) to guarantee a commitment from the distributor on selling NHS's products and to work as a self-selection mechanism – only the companies really interested on the product will be willing to support these costs.

During the remaining part of the year, NHS should monitor and assess the results of its distributors, every two months, and provide feedback and additional training. Distributors should report, every two months the number of hotels contacted, number of demonstrations provided, number of clients they were able to get and feedback on the customer on the product and services – which are connected with the key performance indicators (KPIs) that NHS should monitor (market penetration, brand awareness, sales, and customer satisfaction associated with the quality of the product and service).

In the second phase, the process should be extended to other 12 states (see list in Appendix XXI), in a similar way, during the second year. A chronogram with all the activities listed is in Appendix XXII.

Furthermore, whenever a distributor is able to sell a product, a NHS technician (preferably from Bogotá) should schedule a date with the distributor to install the product in the client's hotel – valid for the first two installations of each distributor.

Distributors in Mexico will get a commission fee ranging between 25 and 50% of the license cost, depending on their performance and KPIs mentioned before.

Financial Plan

Total cost of the investment will be around 49.300€, corresponding 14,700€ to the operational plan (55% in the pre and initial phase and 45% in the second phase) and 34,600€ to the marketing plan (boosted by the cost of the trade shows – each costing around 14.800€). Moreover, 52% of the total investment will be done in the first year and the remaining in the second.

These estimates took in consideration only costs related to the implementation plan in the Mexican market with the information available (market prices). A detailed list of the costs and assumptions can be found in Appendix XXIII.

Moreover, the investment will breakeven when the company sells more than 12 *PMS Front-Office* or more than 42 *Cloud PMS* – these numbers of sales correspond to only 0.4% and 0.8% of market share in each segment. With maintenance contracts and other services or higher number of rooms, the breakeven point will be even lower.

Conclusion and Recommendations

The Mexican market presents a very good option for the internationalization of NHS as it is favoured by the macroeconomic situation of the country and by its market

dimension and structure. The use of the downgraded version of the PMS and the *Cloud PMS* should be launched in the Mexican market as a way to increase sales and reducing the risks of internationalization. Moreover, the company should consider analysing profitability of downgrading other products for the Mexican market and other similar markets, where this lower-end segment is high.

The usage of local companies as distributors leads to a smaller investment and higher and faster market penetration and success on transforming potential in actual clients.

Furthermore, the company should take advantage of the office in Bogotá (Colombia) as much as possible to enhance its competitive advantage on customization, as it is a closer location to Mexico, increasing the speed of the process to Mexican hotels – it saves time if there is need to travel to Mexico and it is more cost efficient.

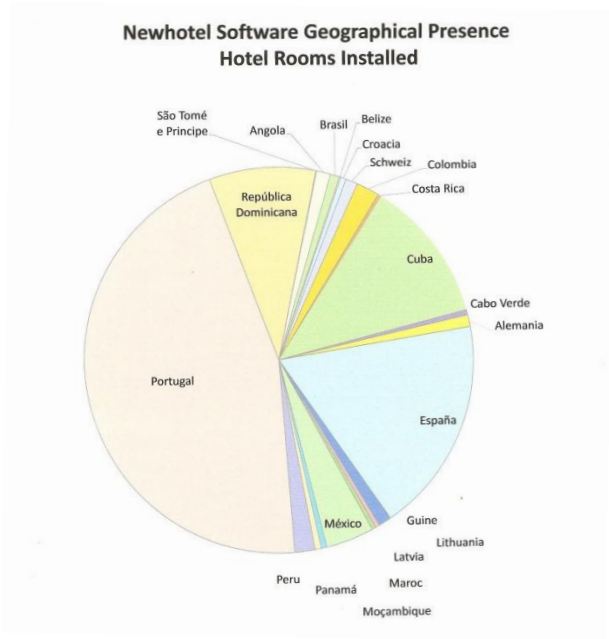
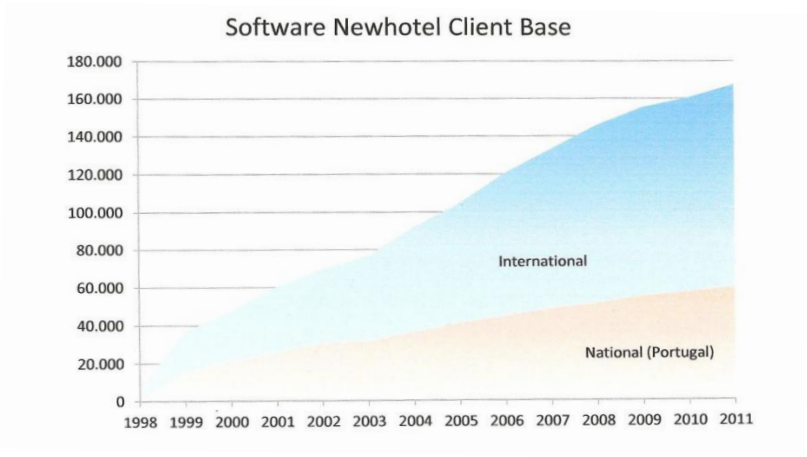
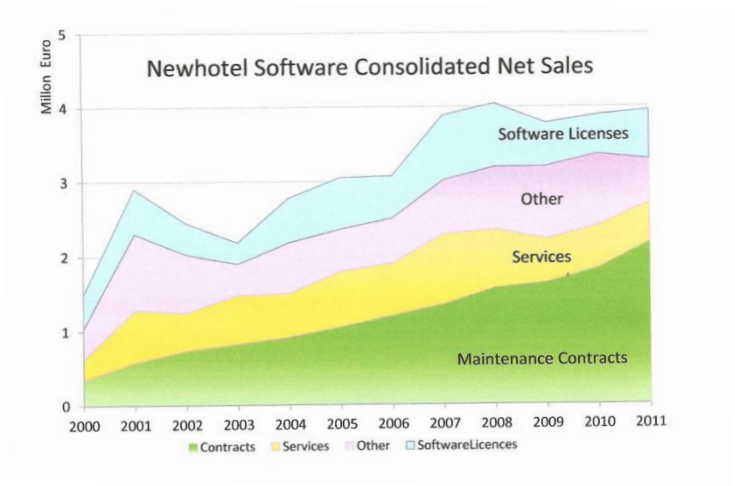
The promotion strategy will also be a source of advantage by communicating in a clearer way the points of difference of NHS regarding the competition in Mexico.

Moreover, to increase the likelihood of success, it is highly recommended that the company considers increase its marketing efforts, spending more money and time promoting its products and raising awareness; increasing switching costs to hotels by adding a mandatory maintenance contract for a certain number of years associated with benefits for the hotels (price discounts, for instance); should increase its relationship with distributors increasing the communication channels (providing more information to the distributors and collecting more feedback from them) as well as sharing sales techniques and methods among them (with annual events, for instance); and create efficient contractual mechanisms with high penalties to dissuade potential distributors from attempting to violate any copyrights or any legal aspect.

Finally, although everything points out to a successful internationalization to Mexico, there is a contingency plan to solve the main risks of the project in Appendix XXIV.

Appendices

Appendix I – Sales, Clients and Products



Source: Newhotel Software

Appendix II – List of Clients in Mexico

Hotel	Location
Ambiance Suites	Cancun
American Business	Saltillo
American Eurotel	Saltillo
American Hotels & Suites Group	Saltillo
American Suites	Virreyes Residencial
American Suites Resort and SPA	Saltillo
Bahia Principe Akumal	Akumal
Bahia Principe Coba	Akumal
Complejo Iberostar Paraiso del Mar	Playa Paraiso
Complejo Iberostar Tucan + Quetzal	Playa del Carmen
Gran Bahia Principe Sian Ka'an	Ctra Chetumal Benito Juarez K
Hotel Bahia Principe Tulum	Municipio de Solidaridad, Aku
Hotel Dos Playas	Cancun
Hotel Iberostar Cancun	Zona Hotelera Cancun Quintan
Hotel Imperial Laguna	Cancun
Hotel Maya Caribe	Cancun
Hotel Premier	Zona Centro
Hotel Real Hacienda S. Tomas	Entre las calles de Quintana Ro
Hotel San Jorge	Zona Centro
Hotel Urdiñola	Zona Centro
Iberostar Cozumel	Quintana Roo
Iberostar Gran Paraiso	Quintana Roo
Iberostar Paraiso Beach	Quintana Roo
Iberostar Paraiso del Mar	Quintana Roo
Iberostar Paraiso Lindo	Quintana Roo
Iberostar Paraiso Maya	Quintana Roo
Iberostar Quetzal	Playa del Carmen, Q. Roo
Iberostar Tucan	Playa del Carmen
Inmobiliaria Cayre, SA de CV	Cancun
Representaciones Turísticas Mexico, SA de CV	Municipio de Solidaridad, Aku
Restaurante Vento	Torreón
Riviera Maya Golf Club	Tulum
Universidade del Caribe	Tabachines

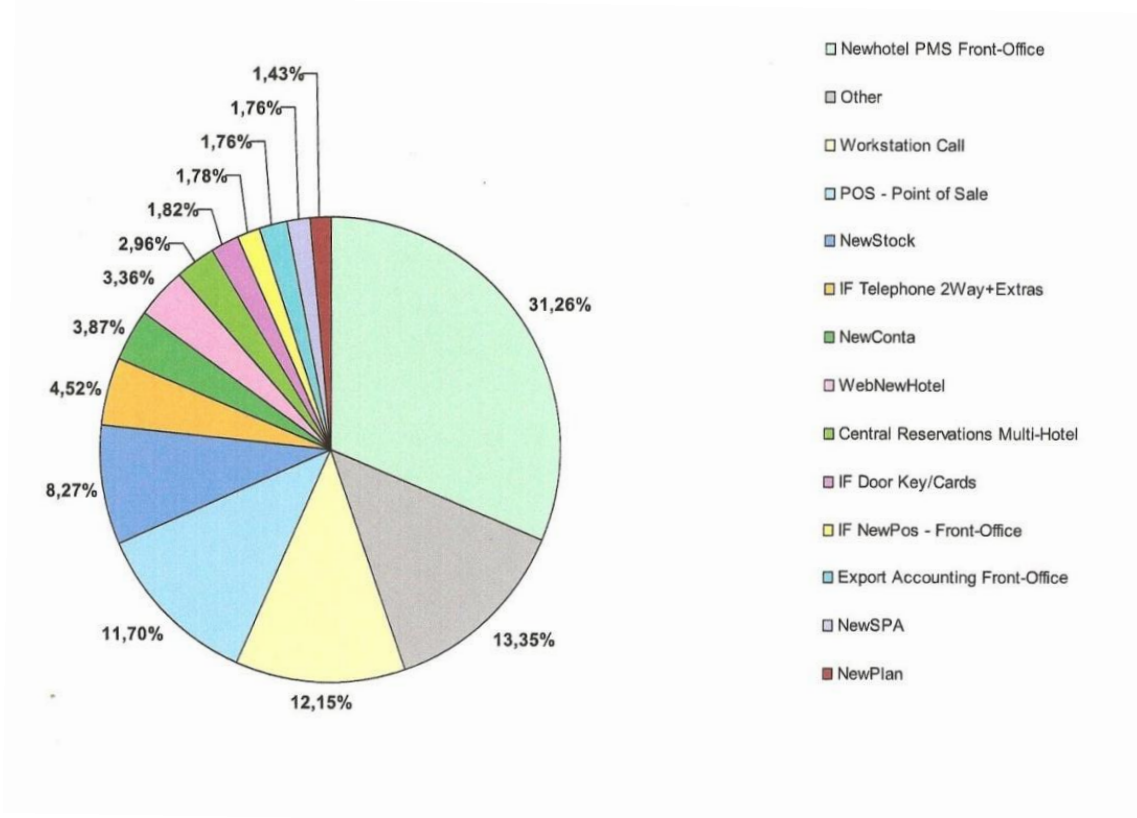
Source: Newhotel Software

Appendix III – Market Share in Portugal

	Hotels	Rooms
With NHS Products	686	59,210
Total number	2011	124,542
Market Share	34.11%	47.54%

Sources: Newotel Software and Instituto Nacional de Estatística

Appendix IV – Historical Top Product Sales



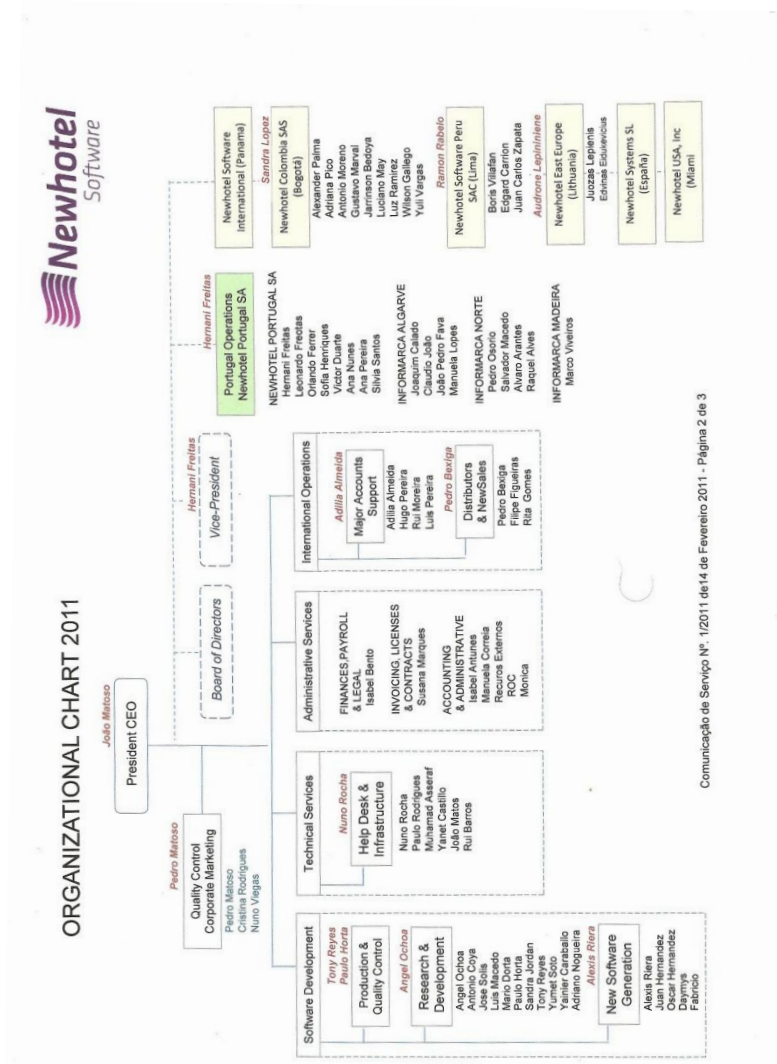
Source: Newhotel Software

Appendix V – Maintenance Packages

LEVELS OF MAINTENANCE SERVICES	GOLD	SILVER	BRONZE	BASIC
HelpDesk 24-hour remote support	Yes	Yes	No	No
New versions & upgrades	Yes	No	No	No
Telemaintenance services available	Unlimited	Week 9-18h	No	No
No charge maintenance included hours	Unlimited	16h /year	No	No
Availability for local interventions	24 hours	Week 9-18h	No	No

Source: Newhotel Software Website

Appendix VI – Organizational Chart (2011)

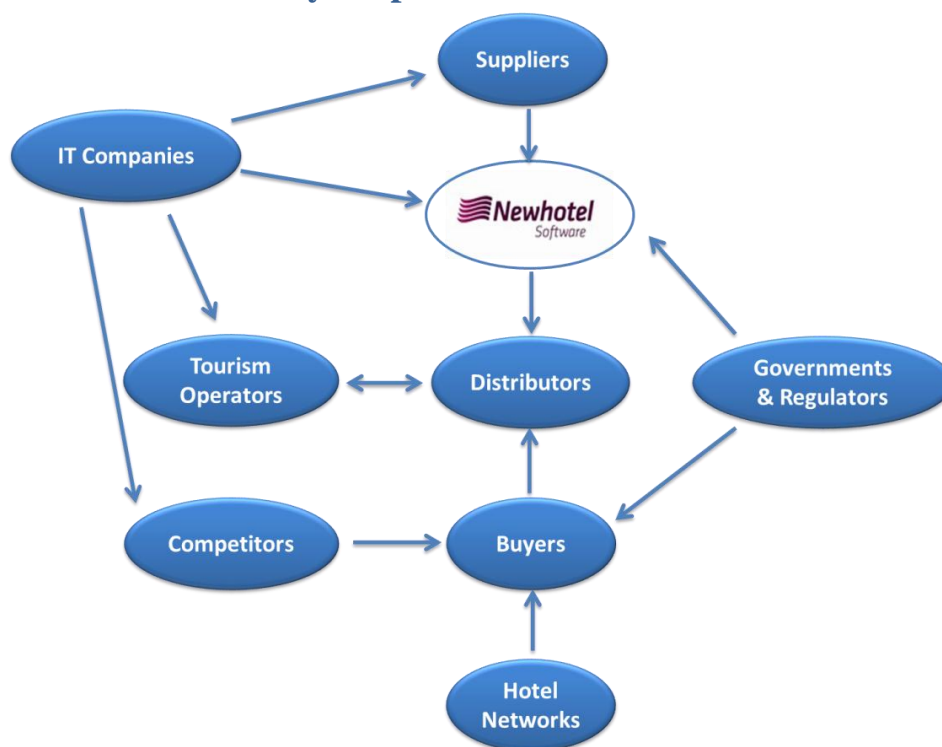


Source: Newhotel Software

Appendix VII – VRIO Framework

Resources	Valuable	Rare	Costly to Imitate	Organized	Competitive Implications
R&D	Yes	Yes	Yes	Yes	Sustainable Advantage
Software Production	Yes	Yes	Yes	Yes	Sustainable Advantage
New Software Creation	Yes	Yes	Yes	Yes	Sustainable Advantage
Help Desk	Yes	No	No	Yes	Temporary Advantage

Appendix VIII – Industry Map



Appendix IX – Software Comparison with Micros

TECHNICAL EVALUATION OF PROGRAMS		
(Scale: 0 to 100)		
	Average	
	Micros	Newhotel
TOTAL	70	74
Systems	63	63
General Applications	67	65
Management Statistics	100	100
Contracts	94	92
Promotions (special offers)	90	93
Reservations	68	75
Predictions	64	100
Reception	56	61
Check-ins	66	69
Clients' Cards	40	47
Management of guests and rooms	44	50
Billing	52	63
Check-outs	75	75
Cash	57	61
Several Sales in the Reception	60	60
POS	84	87
SPA	76	71
Conferences & Events	100	100
House-keeping Management	100	100

Source: Newhotel Software

Appendix X – Macroeconomic Information on Mexico

Area: 1.964.375 km²

Population: 112,469 milion inhabitants

Political Organization of the country: Federation of States

Capital City: Mexico City

Official Language: Spanish

Monetary unit: Mexican Peso (MXN)

Risk of Credit: 3 (1 = lower risk; 7 = higher risk)

Risk of the country: BBB (AAA = lower risk; D = higher risk)

Main indicators	2008 ^a	2009 ^a	2010 ^a	2011 ^b	2012 ^c	2013 ^c
GDP market prices (10⁹USD)	12,176	11,880	13,070	14,000	15,202	16,470
GDP per capita	9,950	7,910	9,200	10,210	10,570	11,180
GDP growth (%)	1.2	-6.2	5.4	5.1	3.1	3.6
Inflation Rate	5.1	5.3	4.2	3.5	3.9	3.9

Notes: (a) Actual Values; (b) Estimates; (c) Predictions

Relationship with Portugal

	2010	Jan-Jul 2011
Exports of Goods (10 ³ €)	404,746	268,487
Ranking Position (2011)		#11 as client
Imports of Goods (10 ³ €)	176,162	185,274
Ranking Position (2011)		#34 as supplier

Source: AICEP

Appendix XI –Hotels in Mexico by Type (International, Regional & National or Independent)

City	Total Number		Percentage of International		Percentage of <u>Regional/National</u>				Percentage of Independent				
	Hotels	Rooms	Hotels		Rooms		Hotels		Rooms	Hotels		Rooms	
Aguascalientes	19	1,819	26	%	44	%	5	%	6	69	%	50	%
Chihuahua	24	2,366	42		51		0		0	58		49	
Coatzacoalcos	12	1,114	33		39		8		11	59		50	
Hermosillo	17	2,044	24		28		24		21	52		51	
León	30	3,254	27		42		20		24	53		34	
Mérida	46	3,081	13		36		2		6	85		58	
Oaxaca	59	2,110	3		12		5		20	92		68	
Puebla	49	3,293	18		43		8		15	74		42	
Querétaro	43	3,274	9		22		12		21	79		57	
Saltillo	19	2,118	21		32		16		12	63		56	
San Luis Potosí	26	4,434	27		22		12		9	61		69	
Tampico/Altamira	35	2,760	29		33		6		8	65		59	
Toluca	18	2,051	39		42		11		11	50		47	
Veracruz	48	4,498	17		23		6		11	77		66	
Villahermosa	17	2,430	41		44		12		16	47		40	
Total	462	40,646	21	%	33	%	9	%	13	70	%	54	%
Guadalajara	102	9,358	14	%	32	%	4	%	6	82	%	62	%
Monterrey	72	10,497	56		64		8		8	36		28	
Total	174	19,855	31	%	49	%	6	%	7	63	%	44	%
Total Including Monterrey and Guadalajara	636	60,501	23	%	38	%	8	%	11	69	%	51	%

Source: HVS Global Hospitality Services

Appendix XII – Market Structure Evolution

2010

Category	Hotels	Percentage	Rooms	Percentage
Total	16794	100%	637232	100%
Five Stars	1073	6,4%	169308	26,6%
Four Stars	1791	10,7%	123696	19,4%
Three Stars	2957	17,6%	106957	16,8%
Two Stars	2276	13,6%	61050	9,6%
One Star	2631	15,7%	53811	8,4%
None	6066	36,1%	122410	19,2%

2009

Category	Hotels	Percentage	Rooms	Percentage
Total	16231	100%	623555	100%
Five Stars	1025	6,3%	164626	26,4%
Four Stars	1711	10,5%	120139	19,3%
Three Stars	2827	17,4%	103983	16,7%
Two Stars	2205	13,6%	60295	9,7%
One Star	2543	15,7%	53127	8,5%
None	5920	36,5%	121385	19,5%

Variation (%)

Category	Hotels	Rooms
Total	3,5%	2,2%
Five Stars	4,7%	2,8%
Four Stars	4,7%	3,0%
Three Stars	4,6%	2,9%
Two Stars	3,2%	1,3%
One Star	3,5%	1,3%
None	2,5%	0,8%

Source: CESTUR (Compendio Estadístico del Turismo en México 2010)

Appendix XIII– Market Structure 2010 by States and Number of Stars

States	5 Stars			4 stars			3 stars			2 stars			1 star			no category			Total	
	hotels	rooms	rooms	hotels	rooms	rooms	hotels	rooms	rooms	hotels	rooms	rooms	hotels	rooms	rooms	hotels	rooms	rooms	hotels	rooms
Total	1,073	169,308	1,791	123,696	2,957	106,957	2,276	61,050	2,631	53,811	6,066	122,410	16,794	637,232						
Aguascalientes	7	736	14	1,149	16	1,052	20	634	11	331	14	518	82	4,420						
Baja California	21	3,229	42	3,757	80	3,990	92	3,138	89	2,467	148	4,080	472	20,661						
Baja California Sur	59	118,18	35	2,191	48	1,675	37	727	36	631	117	2,226	332	19,268						
Campeche	12	920	23	1,283	45	1,421	62	1,424	74	1,266	63	703	279	7,017						
Coahuila	19	2,172	58	4,418	72	1,988	19	516	8	357	82	1,508	258	10,959						
Colima	9	1,382	27	2,407	43	1,387	31	842	57	766	46	911	213	7,695						
Chiapas 3/	18	1,225	46	2,579	127	3,063	142	3,433	414	5,909	47	1,084	794	17,293						
Chihuahua	19	2,413	60	3,822	158	5,954	90	2,010	330	5,209	47	1,084	657	19,408						
Distrito Federal	75	14,459	100	9,736	148	9,909	120	6,394	129	5,482	78	2,554	650	48,534						
Durango	4	314	12	704	37	1,193	32	723	26	557	117	1,354	228	4,845						
Guanajuato	70	3,069	85	5,320	125	4,137	79	2,438	65	1,588	167	3,520	591	20,072						
Guerrero	52	9,998	75	7,894	127	4,786	122	2,677	41	751	176	2,133	593	28,239						
Hidalgo	10	565	26	1,240	82	2,553	62	1,321	32	640	202	2,894	414	9,213						
Jalisco	92	10,108	173	11,554	239	8,980	151	3,660	229	5,582	642	20,210	1,526	60,094						
México	39	2,980	48	4,028	77	3,412	45	1,198	104	2,283	344	8,955	657	22,856						
Michoacán	33	1,037	79	4,143	129	4,184	110	2,868	60	1,181	218	3,513	629	16,926						
Morelos 4/	31	1,919	43	1,684	63	1,542	48	1,190	39	895	41	461	265	7,691						
Nayarit	27	8,986	23	1,909	49	1,685	44	988	37	795	456	12,922	636	27,285						
Nuevo León	36	5,845	47	4,958	35	1,621	27	896	39	621	46	326	230	14,267						
Oaxaca	31	2,210	95	3,928	141	3,446	133	3,376	92	2,002	700	9,189	1,192	24,151						
Puebla	33	1,560	52	3,193	106	3,507	66	1,383	82	1,567	164	4,014	503	15,224						
Queretaro	39	3,121	43	2,355	36	1,157	53	1,227	31	555	85	1,663	287	10,078						
Quintana Roo	177	60,731	98	9,771	171	5,842	90	1,993	78	1,189	279	3,457	893	82,983						
San Luis Potosí	8	1,039	39	2,291	53	1,976	47	1,205	42	911	159	3,271	348	10,693						
Sinaloa	33	5,375	54	4,260	79	2,990	41	1,435	44	1,044	174	3,268	425	18,372						
Sonora	20	3,149	47	4,369	76	3,207	86	2,087	58	1,004	174	5,814	461	19,630						
Tabasco	6	1,043	18	1,391	49	1,847	32	966	36	845	289	4,630	430	10,722						
Tamaulipas	15	1,815	92	6,104	148	5,349	61	2,113	37	943	218	3,919	571	20,243						
Tlaxcala	3	189	8	422	24	596	29	557	42	538	93	1,422	199	3,724						
Veracruz	27	2,922	140	6,884	241	8,762	219	5,836	195	4,573	521	8,768	1,343	37,745						
Yucatán	40	2,438	39	1,870	78	2,264	51	978	53	973	110	1,586	371	10,109						
Zacatecas	8	541	50	2,082	55	1,482	35	817	21	356	96	1,537	265	6,815						

Source: CESTUR

Appendix XIV –Features of the PMS of each Competitor vs. NHS

Features PMS	Skyware	Amadeus	Ezee	Novohit	FrontSuit	Maestro	Micros	Newhotel
Account / Invoice Transfer	x	x	x	x	x	x	x	x
Automatic Backup	-	x	x	x	X	x	x	x
Call Accounting	x	x	x	x	x	x	x	x
Catering	x	x	x	x	x	x	x	x
CMS	-	-	-	-	-	x	-	X
Condo Management	x	x	-	x	-	x	x	X
Conference Center Support	x	x	x	-	x	x	-	X
Corporate Rental	-	-	x	x	-	x	x	X
Custom User Interface	x	x	-	x	x	x	x	X
Customizable Fields	x	x	-	x	-	x	x	x
Customizable Functionality	x	x	x	x	x	x	x	x
Customizable Reporting	x	x	x	x	x	x	x	x
Data Import/Export	x	x	x	x	x	x	x	x
Email Confirmation	x	x	x	x	x	x	x	X
Extended Stay Options	x	x	-	x	-	x	x	X
For Rental Properties	x	x	x	x	x	x	x	X
For Resorts	x	x	x	x	x	x	x	X
GDS / IDS	x	x	x	x	x	x	x	X
Guest Management	-	-	x	-	-	x	-	X
Group Management	x	x	-	x	-	x	x	X
Incident Management	x	x	x	x	x	x	x	X
Individual / Group Check-In	x	x	x	x	x	x	x	X

Inventory Management	x	x	x	x	x	x	x	X
Legacy System Integration	x	x	-	-	-	x	x	x
Maintenance Management	x	-	x	x	x	x	x	X
Marketing Management	x	x	x	x	x	x	x	X
Mobile Access		-	-	x	-	x	x	X
Multi-Currency	x	x	x	x	x	x	x	X
Multi-Language	x	x	x	x	-	x	x	X
Multi-Property Functionality	x	x	-	x	-	x	x	X
Online Booking	x	x	x	x	x	x	x	X
Payroll Management	-	x	x	-	-	-	x	X
POS Integration	x	x	x	x	x	x	x	X
Post a la carte Charges	x	x	x	x	x	x	x	X
Reporting	x	x	x	x	x	x	x	X
Reservation Classification	x	x	x	x	x	x	x	X
Reservations Management	x	x	x	x	x	x	x	X
Room Availability	x	x	x	x	x	x	x	X
Accounting								
Room Feature Classification	x	x	x	x	x	x	x	X
Room Key Manager	x	x	x	x	x	x	x	X
Staff Management	-	-	x	x	x	x	x	X
Social Media Commerce	-	x	-	x	-	x	x	X
Software Development Kit	x	-	x	-	-	x	-	X
Travel Agent Commissions	x	x	x	x	x	x	x	X
Trust Accounting	-		-	x	-	x	x	X
Vacation Rental Management	x	-	-	x	-	x	x	X
Wait List Management	x	x	x	x	x	x	x	X
Walk-in Registration	x	x	x	x	x	x	x	X

“x” marks an existent feature

“-“ denotes the absence of the feature.

Source: Capterra^{xx} and NHS

Appendix XV – Competitors’ Characterization

Amadeus Hospitality Solutions

Divided in four types of software: Link hotel (with software dedicated to small and medium sized hotels); Hotel Platform (with software dedicated to medium to large sized hotels); Hotel Distribution (software for distribution operations and global audience bookers); and Revenue Management.

Its main solution is characterized for being a centralized-property solution with CRS, PMS, global distribution and others in just one fully integrated platform.

What is more, it is also evident that Amadeus puts a great effort on marketing by having a very appealing website with a very broad portfolio of brochures and other materials available for download.

Source: Amadeus Hospitality Solutions Website^{xxi}

Ezee Technosys Pvt. Ltd.

Ezze solution is dedicated to hotels, motels, resorts, B&Bs, among others and it is present in 83 countries around the world. It is characterized by being a modern solution with a range of integrated modules that compose its property management solution. It is made in a way to have a simple design and for being easy to use. It also has integration with some accounting software.

It also provides a 30 days demo and 24/7 technical live support.

Source: Ezee Website^{xxii}

FrontSuite

FrontSuite is a Harseim Group company present in the US, Mexico, Brazil, Chile and Germany. It targets a market from SMEs to large companies. Its products is characterized for being an all-in-one approach that combines front-office and back-office, sales and marketing, travel agencies processor and banquets software.

It has a downloadable trial version and it only provided email technical support with a response time of 48 hours.

Source: FrontSuite Website^{xxiii}

NOVOhit

NOVOhit is an IT company present in the US, Mexico (with one office in Cancun and other in Mexico City), Venezuela and Chile, currently preparing its expansion to Italy. It has several areas of business including software for the hospitality industry, providing solutions with front-office, POS, back-office, business applications (including interfaces) and analytical report engines.

Furthermore, NOVOhit distinguishes itself by being a modular solution constituted by independent modules that can be integrated and parameterized. In addition, it also provides 24/7 technical support.

Source: NOVOhit Website^{xxiv}

Maestro PMS

Maestro from Northwind is present in Latin America through a distribution network. It provides solutions for hotels, resorts, multi-property groups, conference centers, condominiums, among others.

Maestro PMS has very complete software offer a very broad portfolio of products, very guest-centric, that work in a modular way. It has currently over 20 modules that can be fully integrated in one single system.

It distinguishes itself by having a very sophisticated technical support that functions 24/7 and that was recently extended to all of its customers.

Source: Maestro PMS Website^{xxv}

Skyware Systems

Skyware Systems is a hospitality solutions' provider with headquarters in the US and in Mexico (Mexico City) with web-based services and software solutions, targeting mainly independent hotels and boutiques. Its range of products, capable of being integrated with each other, includes online booking services, PMS, Sales and catering software, spa and activity scheduling software, among others.

Moreover, it provides online training embodied in the software as well as onsite training if requested and its technical support, working 24/7, is capable of providing a response in 20 minutes.

Source: Skyware Systems Website^{xxvi}

Appendix XVI – Porter's Five Forces Analysis

Threat of New Entrants

For completely new players in the market the threat of new entrants is low as there are high fixed costs and exit barriers associated. However, if one considers just the Mexican market, the threat of new entrants is high as other companies, similarly to HNS, have the product developed and commercialized in other countries and it needs very little adaptation for the Mexican market, making the threat moderate.

Bargaining Power of Buyers

Buyers usually buy a license and stay with it for a long time which increases their bargaining power. However, there are a large number of suppliers who know that they face high switching costs if they decide to change PMS. Moreover, if on the one hand, hotels have very little power since there is a very large quantity of independent hotels in the market, on the other hand, 83% of the market is constituted by small and midsized hotels which are more likely to be more price-sensitive. Therefore, the buyers' bargaining power is moderate.

Threat of Substitutes

There is a very low threat of substitutes. There are very few or no product that can substitute a property management system.

Bargaining Power of Suppliers

The bargaining power of suppliers is low since there are a lot of tools suppliers in the market and the intensity of rivalry among them is high. This is evidenced, for instance, by the very low cost of oracles' tools in NHS cost structure (0.67% of total costs).

Intensity of Rivalry

The intensity of rivalry will be high, since in addition to all the above mentioned, There is a low degree of product differentiation. The only differentiation occurs through quality, design, integration of applications, etc. but there are a lot of players in the market offering the same services. Moreover, as buyers have switching costs, and this kind of services usually implies a license used for a long period of time, this will contribute positively to the level rivalry.

Appendix XVII – SWOT Analysis

Strengths

- Large portfolio of solutions that can cover the majority of the needs of hotels
- This portfolio of products is modular, being able to function as an integrated system or as stand-alone applications
- According to a technical evaluation, NHS has a superior product than its main competitor (Micros), with 70 points compared to Micros 70 out of 100 (Appendix IX)
- Natural compatibility with other interfaces, including the ones from competitors (a hotel may use the front-office of competition, connecting it with NHS' POS, for instance)
- Adaptation of the software at customers' needs with lower costs than competition
- Implementing ISO 92001 (quality certificate)
- Already has a portfolio of clients in Mexico, mainly hotels that belong to Iberostar, that can be used as a reference to other hotels

Weaknesses

- Distributors are not very well monitored or have any incentive system with quantitative goals and rewards associated that could create incentives in the sense of improving their performance.
- Very reactive company – software applications were developed according to clients' needs, some internationalizations happened as a result of client's internationalization processes (they should anticipate market needs and trends)

- Unable to reach the big hotel chains with centralized decision power in what concerns to the software used

Opportunities

- There a large number of independent hotels in Mexico plus a still significant percentage of small chains (regional and national) makes it a very attractive market;
- 83% of the hospitality market is composed by small and midsized hotels which can be an opportunity to explore its PMS express (simpler version of the PMS due to its smaller number of features – downgraded version of the product);
- New geographic markets, particularly countries with more challenging legal and fiscal rules (due to the easiness that it has to adapt its applications to the customer);
- New targets (NHS has such a broad number of applications that it is possible that they could increase profits substantially by addressing other targets than hotels);
- New products (can develop: more marketing tools and create HR tools, revenue management improvement);
- New market trends.

Threats

- Competition established in the market that can evolve and replicate some of NHS distinct capabilities;
- Centralized decisions of the hotel chains;
- One major player in the international market – Micros

Appendix XVIII - TOWS Analysis

Strengths / Opportunities

- Exploit the fact that it has a superior product and already a set of clients present (namely Iberostar hotels) in Mexico in order to conquer the independent hotel segment;
- Focus on customization in order take advantage of geographic markets with complex or unstable fiscal and legal systems;
- Take advantage of the broad portfolio of products and try to enter other markets than the hospitality. E.g.: Food & Beverage, Golf courses, etc.
- Simplify some software or rush the development of the cloud system in order to address small and medium sized hotels.

Strengths / Threats

- Keep innovating and improving software in order to be always ahead of the competition and imitators in particular
- Continue to increase the range of products since it is easier to enter in hotel chains with other products than the PMS Front-Office.

Weaknesses / Opportunities

- Define ambitious goals and keep track of distributors' performance in order to improve the internationalization process.
- Become more proactive and more client-centered in order to anticipate client's needs and emerging market trends.

- Improve marketing and sales in order to increase chances of being able to reach big hotel chains.

Weaknesses / Threats

- Benchmark with Micros: it is very important to compare prices, products offered and most important of all, products that micros do not offer. In that way, Newhotel can try to capture the market by offering a price competitive product with more and better functionalities.
- Find influent partners in order to enter those chains with centralized decisions

Appendix XIX – Mode of Entry Selection

Criteria\Mode of entry	Licensing	Joint Venture	Wholly-Owned subsidiary
Return per hotel/room	Low/Moderate	Moderate	High
Market Penetration	Very High	Medium/Low	Low
Total Return	High	High	?
Risk	Very Low	Low	Moderate
Investment	Low	Moderate	High
Control of operations	Low	Moderate	Very High
	1 st Choice	2 nd Choice	3 rd Choice

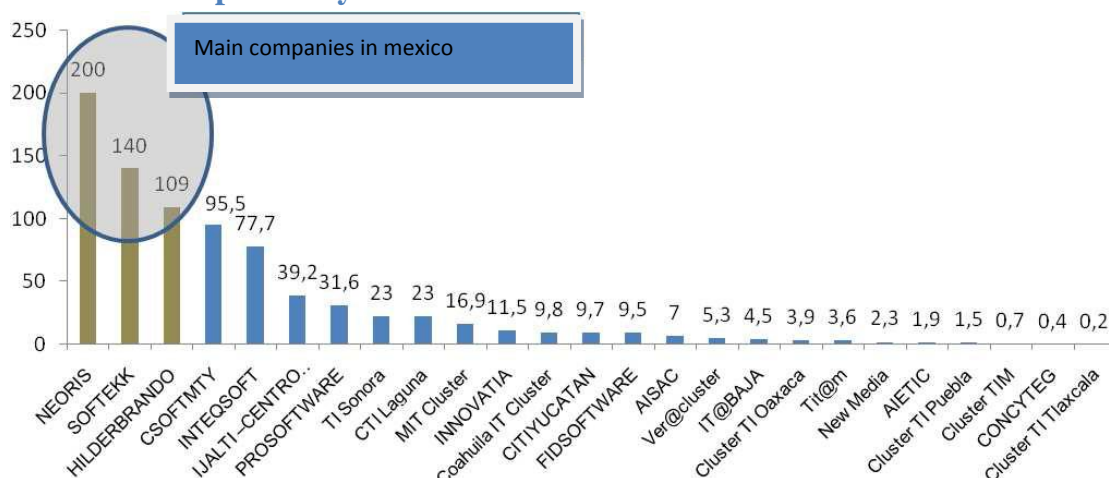
1. Licensing will have a higher impact on market penetration and with good collaborative arrangements this can translated in a higher rate of success transforming potential clients into actual clients. It also solves the issue of the market knowledge and networking with hotels.

2. A joint Venture is a possible option but has the inconvenient of having to find a large company present in (most or) all the states in Mexico with a connection to hotels. Given the experience of the company in what concerns to dealing in partnerships, it is very unlikely that such companies could be interested in this mode of entry.

3. The wholly subsidiary will imply a very large investment. Due to the dimension of the Mexican territory and the dispersion of the hotels, it is very likely that it would be necessary to open several offices (corresponding to the main areas of hotels to achieve a high rate of success. To open several offices would imply a high level of costs with real estate and employees and the alternative of just opening one office would imply internal flights inside the country that would make every demonstration and sale very expensive. The wholly subsidiary is a very good option to avoid potential risks of corruption or copyrights violations but at a very expensive cost.

Appendix XX – Potential Distributors

Main IT Companies by Revenue



Source: AICEP

Main Accounting Firms (excluding big international groups)

Despacho Limon Mestre, S.C. - Medium sized firm – CANCHAM Member

San Francisco 1005 esq. Sacramento

Col. Del Valle; 03100 México, D.F.

Tel: (52-55) 5687-9328 / 9133; Fax: (52-55) 5687-5111

Email: dlimonm@prodigy.net.mx

Dadoo & Asociados, SA de CV - Medium sized firm

Bosques de Duraznos 65, Piso 9 Desp. 908-B

Col. Bosques de las Lomas, 11700

Tel: (52-55) 5596-3456

Email: harish@dadooyasociados.com

Website: www.dadooyasociados.com

Gulesserian & Consultores - Medium sized firm

Monte Libano 235 Mezzanine

Col. Lomas de Chapultepec; 11000 México, D.F.

Tel: (52-55) 5249-7130; Fax: (52-55) 5549-7139

Email: haig@gulesserian.com.mx contacto@gulesserian.com.mx

Website: www.gulesserian.com.mx

Howarth Castillo Miranda - Medium sized firm

Paseo de la Reforma No. 505, Piso 31, Torre Mayor

Col. Cuauhtémoc Del. Cuauhtémoc 06500 México, D. F.

Tel: (52-55) 8503-4200;

Fax: (52-55) 8503-4299

Email: cgarza@hicm.com.mx

Website: www.castillomiranda.com.mx/

Accounting, tax and audit services; outsourcing and professional advising.

Impuestum Contadores - Small sized firm

Jorge Dávila Portillo - Montiel 287

Col. Lindavista; 07300 México, D.F.

Tel : (52-55) 1346-9900

Email: jdavila@impuestum.com

Website: lindavista.impuestumcontadores.net

Services of Accounting for a physical and moral person, give advices on constitution for societies, obtains the best fiscal results, evaluate investment projects.

Russell Bedford México S.C. - Small sized firm

Alfonso Millas, Gerente de Evaluación de Negocios

Ejército Nacional 418, 5° piso

Col. Polanco 11570, México D.F.

Tel: (52-55) 5262-4800x4057

Fax: (52-55) 5531-3640

Email: amilla@russellbedford.mx

Website: www.russellbedford.com.mx

Business Consulting / Corporative Finances Services. With Regional Offices in Monterrey, Guadalajara, Tijuana and Mérida.

Asociacion Mexicana de Contadores Publicos - Association - CANCHAM Member

C.P.C. Cecilia Bravo Navarro, Presidenta - Esperanza # 765,

Col. Viaducto Narvarte, C.P. 03020, México, D.F

Tel: (52-55) 5636 2370 / 01 800 821 89 51;

Fax: (52-55) 5639-1960

Email: presidencia@amcpdf.org.mx

Website: www.amcpdf.org.mx

Internet providers

Avantel - <http://www.axtel.mx/servicios/portada>

Telecosmo - <http://www.gruposalinas.com/companies/telecosmo.shtml>

Telmex - <http://www.telmex.com/mx/>

Appendix XXI – Potential Partners

- Asociación de Hoteles de la Ciudad de México
<http://mexicocityhoteliers.com/en/home.aspx>
- Asociación Mexicana de Hoteles y Moteles - <http://www.hotelesmexicanos.org/>
- Asociación de Hoteles - <http://www.asociaciondehoteles.com.mx/>
- Consejo Nacional Empresarial Turístico (CNET) – www.cnet.org.mx
- Asociación de Hoteles de Cancún - www.ahqr.com.mx
- Asociación Nacional de Cadenas de Hoteles - www.anch.com.mx
- Asociación de Hoteles y Empresas Turísticas de Acapulco - www.aheta.com
- Confederación Nacional Turística (CNT) - www.confederacion.org.mx

Appendix XXII – States for the Second Phase

1. Aguascalientes
2. Baja California
3. Coahuila
4. Colima
5. Chihuahua
6. Nayarit
7. San Luis Potosí
8. Sinaloa
9. Sonora
10. Tabasco
11. Tamaulipas
12. Veracruz

Appendix XXIII – Chronogram of Activities

Year	Activities	Jan	Feb	Mar	Apr	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	Contact Distributors											
	Contact Agencies in Mexico											
	Close Deals with Distributors											
	“Online” Training											
	Onsite Training											
	Monitoring and Assessment											
	Preparation of the 2 nd Phase											
	Promotion in Trade Shows											
2013	Extend distribution contracts (to other states)											
	Contact New Distributors											
	Close Deals with Distributors											
	“Online” Training											
	Onsite Training											
	Monitoring and Assessment											
	Promotion in Trade Shows ^{xxvii}											

Appendix XXIV – Implementation Budget and Breakeven

	Expense	Description	Cost
Pre-Implementation	Flights	1 intercontinental flight TAP ^{xxviii} 3 flights ^{xxix} (Mexico City-Cancun; Cancun-Baja California Sur; Cancun-Baja California Sur-Mexico City)	940€
	Internal Flights		900€
	Accommodation	1 Room in a hotel of four stars ^{xxx} for 12 days (11 nights)	660€
	Car Rental	Average price of a fair vehicle ^{xxxi}	1300€
	Other Expenses	Budget limit for gas, meals, etc.	1000€
	Total Cost		4800€
Initial Phase	Travel Expenses	50% of 12 flights Mexico-Bogotá with return (550€ each ^{xxxii})	3300€
2nd Phase	Travel Expenses	50% of 24 flights Mexico-Bogotá with return	6600€
Total Cost of Operations			14,700€
Marketing Expenses	Exphotel		
	Flights	2 x intercontinental flight TAP + 2 x national flight ^{xxxiii}	2490€
	Accommodation	2 rooms in a hotel of four stars ^{xxxiv} for 5 nights ^{xxxv} 1 3x3m stand + other merchandising + assembly and transportation ^{xxxvi}	800€
	Stand		9232€
	Rent	Space Rent in Fair	1762€
	Other Expenses	Other transportation, meals, etc.	500€
	Total Cost		14,784€
	Same Fair in 2013 ^{xxxvii}		14,784€
	Other Marketing Expenses	Brochures, banners, adwords, etc.	5000€
Total Marketing Costs			34568
Total Cost of the project			49268

Breakeven Values:

Fixed Costs: 49,268€ (correspondent to the amount of investment)

Price of the *PMS Front-Office*: 7,000€ (correspondent to the price of 100 rooms)

Price for the Cloud PMS: 1549€ (corresponding to a contract of 30 rooms and annually)

Variable Cost: 25% commission on the price of the PMS (correspondent to the commission of the first sales of distributors)

Assumptions:

1. The price of a license of 100 rooms reflects their target (it is a minimum price).
2. 30 rooms on the Cloud PMS is an expected minimum given the data observed from hotels in Mexico with 2 and 3 stars.
3. One year of mandatory subscription for the Cloud PMS is something that can be on the contract and it is something expected given some feedback from first clients of the product.
4. Other costs with services, namely with installations of software in new hotels (that will imply flights from Bogotá and other expenses) were disregarded as they represent variable costs and correspond to services that are charged to the customer
5. All values take in consideration the current conversion rates from USD to EUR (1 U.S. dollar = 0.765931373 Euros) and from MXN to EUR (1 Mexican peso = 0.0560338749 Euros) and do not take into account currency changes or price variations due to unpredictability and the fact that this concerns a two years project (i.e. high changes are not expected).

Appendix XXV - Contingency Plan

Although the financial analysis indicate a very low degree of risk of failure, major risks and mitigations were taking into account as listed below.

Risk	Contingency
Low Commitment from Distributors	Apply/Increase Penalties in contracts or terminate them
Copyrights or other legal violation	Terminate Contracts/Apply penalties
Low Market Penetration	Provide more training; review distributors; increase its number
Low Brand Awareness/Brand Recall	Increase the marketing budget (increase participation in the hospitality industry, organize more events/demonstrations)
Low efficiency of onsite support in Mexico	Allocate somebody from the office in Bogotá; Hire an IT engineer from Mexico to be on call

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Reference Sites:

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Câmara de Comércio Luso-Mexicana: <http://www.camaralusomexicana.org/>

CESTUR: <http://cestur.sectur.gob.mx/>

HVS Global Hospitality Services (Consulting firm): <http://www.hvs.com>

Heritage Foundation: <http://www.heritage.org/>

Instituto Nacional de Estatística: <http://www.ine.pt>

Ministry of Tourism: <http://www.sectur.gob.mx>

Latin Trade: <http://latintrade.com/>

Resources Library: <http://findarticles.com/>

World Economic Forum: <http://gcr.weforum.org/>

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ⁱ http://www.sectur.gob.mx/es/sectur/sect_Pueblos_Magicos (accessed on the 20th of November)

ⁱⁱ <http://www.portugalglobal.pt/PT/Internacionalizar/Paginas/MercadosExternos.aspx?marketId=36> (accessed on the 21th of October)

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- iii <http://cestur.sectur.gob.mx/> (accessed on the 15th of November)
- iv Values of 2011 are not available at the moment.
- v http://www.sectur.gob.mx/es/secturing/sect_8975_impact_of_new_techno (accessed on the 20th of November)
- vi <http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=dsti/iccp/cisp%282009%293/final&doclanguage=en> (accessed on the 26th of October)
- vii Source: AICEP
- viii Source: AICEP
- ix Source: AICEP
- x <http://www.heritage.org/Index/Country/Mexico> (accessed on the 26th of October)
- xi http://www.promotur.com.mx/wb/CPTM/CPTM_Panorama_del_Sector_Turistico (accessed on the 20 of October)
- xii <http://gcr.weforum.org/ttci2011/> (accessed on the 23 of November)
- xiii <http://cestur.sectur.gob.mx/> (accessed on the 15 of November)
- xiv <http://www.hvs.com/article/5328/mexicos-growing-need-for-business-oriented-branded-hotels/> (accessed on the 17 of October)
- xv <http://cestur.sectur.gob.mx/> (accessed on the 15 of November)
- xvi Hotels with three stars have in some states an average up to 67 rooms per hotel and up to 53 rooms per hotel in the case of hotels with two stars –enough rooms to justify the use of an efficient PMS.
- xvii There is a Spa Software in Micros’ portfolio of products but it is not produced by the firm.
- xviii Micros acquisitions’ tactics lead to a portfolio of products with very different source codes that make difficult the integration of software. What is more, it does not integrate its software with other companies’ software.
- xix <http://www.eventseye.com/fairs/f-exphotel-12808-1.html> (accessed on the 10th of December)
- xx <http://www.capterra.com/hospitality-property-management-software> (accessed on the 13th of november)
- xxi <http://www.amadeus.com/hotels/hotels.html> (accessed on the 14th of November)
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- xxiii <http://www.frontsuite.com/index.php> (accessed on the 14th of November)
- xxiv <http://www.novohit.com/nws/index.php> (accessed on the 14th of November)
- xxv <http://www.maestropms.com/home> (accessed on the 14th of November)
- xxvi <http://www.skywaresystems.com/index.html> (accessed on the 14th of November)
- xxvii Although the fairs in 2012 occur annually, their dates for 2013 are not already established. They can happen in different months/locations
- xxviii Source: <http://flytap.com> –less expensive in economical fare (accessed on the 9th of November)
- xxix Source: AICEP – average cost of national flights
- xxx Source: <http://Booking.com> based on an average of the less costly prices (accessed on the 9th of November)
- xxxi <http://www.avis.com.pt/> - average price of fair cars with rental at the airport (accessed on the 9th of November)
- xxxii Source: <http://booking.com> and <http://expedia.com> - average price (accessed on the 9th of November)
- xxxiii There is no direct flight to Cancun
- xxxiv Source: <http://booking.com> – average price taking in consideration the less expensive rooms (accessed on the 9th of November)
- xxxv Period extended in order to make the prices of the flights cheaper. The increase in the price of the hotel rooms plus expenses is lower than the decrease in the price of the flight.
- xxxvi There is lack of information regarding these costs. A more reliable cost can be arranged by ordering a budget with the specifications of the stand.
- xxxvii Prices of 2013 unavailable. Estimation based in costs of 2012.